1997-98 SESSION COMMITTEE HEARING RECORDS

Committee Name:

Joint Committee on Finance (JC-Fi)

Sample:

Record of Comm. Proceedings ... RCP

- 05hrAC-EdR_RCP_pt01a
- 05hrAC-EdR_RCP_pt01b
- 05hrAC-EdR_RCP_pt02

- Appointments ... Appt
- **

- Clearinghouse Rules ... CRule
- **

- Committee Hearings ... CH
- **

- Committee Reports ... CR
- **

- Executive Sessions ... ES
- **

- Hearing Records ... HR
- **

- Miscellaneous ... Misc
- 97hrJC-Fi_Misc_pt46a_LFB

- Record of Comm. Proceedings ... RCP
- **

Commerce

Departmentwide and Economic Development

(LFB Budget Summary Document: Page 114)

LFB Summary Items for Which Issue Papers Have Been Prepared

Item #	Title
2,10&23	GPR Appropriation Structure for Rural Economic Development Program, Wisconsin Development Fund and Community-Based Economic Development Program (Paper #240)
2-6	Rural Economic Development (RED) Program (Paper #241)
7	Funding for Forward Wisconsin (Paper #242)
8	Moving Costs (Paper #243)
9	Economic Development Promotion Funding (Paper #244)
11	Wisconsin Development Fund -- Loan Origination Fee (Paper #245)
14&29	Manufacturing Assessment Center (Paper #246)
23	Community-Based Economic Development Program -- Venture Capital Development Projects/Funding Level (Paper #247)
26	Minority Business Development Finance Program Modifications (Paper #248)
34	Repeal Badger Fund and Badger Board and Create a Mining Economic Development Grant Program (Paper #249)
37	Modifications to Physician and Health Care Provider Loan Assistance Programs (Paper #250)
38	Development Zone Program Changes (Paper #251)
-	Development Zones Tax Credits (Paper #252)

To: Joint Committee on Finance

From: Bob Lang, Director
Legislative Fiscal Bureau

ISSUE

GPR Appropriation Structure for Rural Economic Development Program, Wisconsin Development Fund and Community-Based Economic Development Program (Commerce)

[LFB Summary: Page 114, #2; Page 120, #10; and Page 130, #23]

CURRENT LAW

The Wisconsin Development Fund (WDF) and the Rural Economic Development (RED) Program are funded through a general purpose revenue (GPR) and a program revenue (PR) repayments appropriation. The GPR appropriations are biennial. The program revenue appropriations are continuing appropriations; amounts received from loan repayments are credited to the repayments appropriation and these monies can be used to fund grants and loans. The Community-Based Economic Development (CBED) Program is funded by a GPR annual appropriation.

GOVERNOR

Convert the Wisconsin Development Fund, Rural Economic Development and Community-Based Economic Development program GPR appropriations to continuing appropriations.

DISCUSSION POINTS

1. Funding for GPR biennial appropriations is expendable only for the biennium for which it is appropriated. Unexpended amounts remaining in the appropriation lapse to the

general fund. Similarly, funding for GPR annual appropriations can only be expended in the year for which the funds are appropriated; unexpended amounts remaining in the appropriation at the end of the fiscal year lapse to the general fund.

2. Funding for continuing appropriations is available until it is fully expended or repealed by a subsequent action of the Legislature. Authorized funding amounts carry over from year to year until they are completely spent.

3. Under the bill, the appropriations would be converted to continuing appropriations to provide the Department with more flexibility to award grants and loans to viable projects when the demand for funding exceeds currently appropriated amounts. The change would allow the Department to carry funding over from years in which demand for grants and loans is relatively low to years in which demand would increase. It is argued that without the carryover of funding to these years to provide additional grants and loans, economic development projects and the associated benefits, such as job creation and capital investment, might not occur or businesses may locate in other states.

4. However, the conversion of the appropriations to continuing could be questioned. The Department is experienced in budgeting for the WDF, RED and CBED programs and should be able to anticipate demand for program funding. Moreover, the WDF and RED have continuing program revenue appropriations which provide flexibility as additional funding sources. In 1995-96, the total amount of funds expended from these appropriations was substantially below the authorized expenditure amounts.

5. Changing the appropriations to continuing could allow significant appropriation balances to develop and be carried over into future years to fund increased expenditures. The presence of carry-over balances in these appropriations would allow the Department to expend funds without direct legislative approval. These type of spending increases typically should be addressed through the biennial budget process. Keeping the biennial and annual GPR appropriations would retain a degree of legislative oversight. Balances at the end of the biennium or fiscal year would lapse to the general fund, rather than accumulating. If appropriation levels were insufficient to accomplish legislative objectives due to unforeseen circumstances, the Department could submit a s. 13.10 request for an appropriation supplement.

6. It is estimated that at the end of 1996-97, the WDF, RED and CBED programs will each lapse GPR funding that was encumbered in previous biennia. The estimated 1996-97 lapses from these program is expected to exceed $1.5 million as follows: (a) WDF, $1,100,000; (b) CBED, $219,400; and (c) RED, $205,600. If the GPR appropriations for each program are changed to continuing appropriations, such lapses will not occur in future years.

ALTERNATIVES TO BILL

1. Approve the Governor's request to convert the WDF, RED and CBED, GPR appropriations to continuing appropriations. (Future lapses would not occur.)

2. Maintain current law. (Unexpended GPR funds would continue to lapse to the general fund.)

Prepared by: Ron Shanovich

MO# A1+2

2	BURKE	Y	N	A
1	DECKER	Y	N	A
	GEORGE	Y	N	A
	JAUCH	Y	N	A
	WINEKE	Y	N	A
	SHIBILSKI	Y	N	A
	COWLES	Y	N	A
	PANZER	Y	N	A
	JENSEN	Y	N	A
	OURADA	Y	N	A
	HARSDORF	Y	N	A
	ALBERS	Y	N	A
	GARD	Y	N	A
	KAUFERT	Y	N	A
	LINTON	Y	N	A
	COGGS	Y	N	A

AYE 8 NO 7 ABS 1

To: Joint Committee on Finance

From: Bob Lang, Director
Legislative Fiscal Bureau

ISSUE

Rural Economic Development (RED) Program (Commerce)

[LFB Summary: Pages 114-118, #s 2 thru 6]

CURRENT LAW

The Rural Economic Development Program (RED) provides grants and loans for professional services and loans for working capital, fixed asset financing and employe relocation costs incurred in starting or expanding an eligible business in a rural municipality. The RED is funded through both a GPR biennial appropriation and a program revenue repayments appropriation. Amounts received from RED loan repayments are credited to the repayments appropriation and these monies are used to fund RED grants and loans. Base level funding for the RED program is $271,500 GPR and $79,500 PR.

GOVERNOR

The bill would make the following modifications to the RED:

a. The GPR appropriation for the program would be increased by $478,500 annually to reflect funding transferred from the WDF. Expenditure authority of $200,000 annually would be provided for the Department's gifts and grants program revenue appropriation to reflect anticipated private sector donations related to agribusiness development. Expenditure authority for the repayments appropriation would be increased by $82,900 PR in 1997-98 and decreased by $9,400 in 1998-99. Total GPR funding for the RED would be $750,000 each year. Expenditure authority for the repayments appropriation would be $162,400 in 1997-98 and $70,100 in 1998-99. (The GPR appropriation would also be changed to a continuing appropriation. This modification is addressed in a separate budget paper.)

b. The definition of a rural municipality would be expanded to include a city, town or village with a population of up to 6,000, rather than the current maximum population of 4,000. Also, an eligible business would be a business with fewer than 100 employees, instead of the current limit of 25 employes.

c. The RED Board would be required to award from 25% to 50% of the total amount of RED funds awarded in a fiscal biennium for purposes related to an agricultural business. The Board would be required to give priority to grants and loans that would be used for purposes related to a dairy farm. Commerce and the Department of Agriculture, Trade and Consumer Protection (DATCP) would be required to designate staff to evaluate applications for grants and loans related to agricultural businesses and to make recommendations and assist in reviewing applications.

d. The maximum award for professional services and management assistance (early planning grants) would be reduced from $30,000 to $15,000 and awards could only be made as grants.

e. The maximum award that could be provided for working capital, fixed asset financing and employee relocation costs would be increased from $25,000 to $100,000 and awards could be made as grants as well as loans. The requirement that, in order to receive an award, a business must have received a RED early planning grant would be eliminated. Instead, the business would be required to demonstrate the feasibility of the project. The bill would also eliminate the requirement that a maximum of 20% of total RED funding in the biennium be used for these loans.

f. The bill would create a new grant program under the RED that would provide grants to a person or business that proposes to start-up, modernize or expand a dairy farm (as defined in the statutes) or other agricultural business in the state. Grant proceeds could be used to pay for services related to the start-up, modernization or expansion of the dairy farm or other agricultural business or for management assistance which would continue after completion of the start-up, modernization or expansion. The maximum grant that could be awarded under the program would be $50,000. The total amount of grants awarded under the program could not exceed $200,000 for a fiscal year.

DISCUSSION POINTS

1. Under current law, eligible applicants for RED grants and loans are businesses that meet the following criteria: (a) employe fewer than 25 persons; (b) are located in a rural municipality (a city, village or town with a population of 4,000 or less or a municipality located in a county with a population density less than 150 persons per square mile); and (c) are starting or expanding operations.

The RED program has two subprograms. The early planning grant program provides grants or loans of up to $30,000 to fund professional services related to starting or expanding a business or for management assistance continuing after the start-up or expansion. Professional services include: preparation of feasibility studies or business and financial plans; providing a financial package; engineering studies, appraisals or marketing assistance; or related legal, accounting or managerial services.

The micro-loan program provides loans of up to $25,000 for a business for: (a) working capital; (b) fixed asset financing; and (c) employe relocation costs. However, in order to be eligible for a micro-loan, a business must have previously received a rural economic development early planning grant, successfully demonstrate the feasibility of the business and be unable to obtain financing from other sources in reasonably equivalent terms.

2. In the 1993-95 biennium, a total of $592,000 GPR ($296,000 annually) was appropriated for the RED program. Expenditure authority of $87,100 PR ($39,000 in 1993-94 and $48,100 PR in 1994-95) was granted. The total amount of grants and loans that were awarded and encumbered during the biennium was about $322,300; while a total of $269,700 GPR of biennial funding lapsed to the general fund at the end of fiscal year 1994-95. For the current biennium, a total of $480,700 GPR ($209,200 in 1995-96 and $271,500 in 1996-97) and expenditure authority of $211,300 PR ($131,800 in 1995-96 and $79,500 in 1996-97) is provided. Through March, 1997 a total of $403,100 had been awarded. An estimated $205,600 GPR will lapse at the end of fiscal year 1996-97.

3. A primary goal of the RED modifications is to expand economic development activities to areas of the state which have not been the focus of such activities in the past. A substantial amount of WDF awards are made to businesses that locate and expand in the more urban and populated areas of the state. Through March of 1997, over 73% of all WDF awards were made to businesses in 12 counties with at least 70% of the population living in cities or villages. Conversely, 38 counties with over half of the population residing in towns received about 7.7% of total WDF awards. In part, this reflects the pattern of economic activity. More businesses and people reside in urban areas and, therefore, it is likely that a substantial proportion of economic development awards would be directed to these areas. Commerce argues that the disparity also reflects the nature of WDF programs, which focus on substantial investment and job growth. They would note that in fiscal year 1995-96 the average major economic development award was almost $300,000. Similarly, the average customized labor training award was $236,000 and the average technology development award was over $100,000. These amounts would indicate that the projects that receive funding require a substantial financial commitment from the business. From this view, the current WDF programs are not designed to provide a large number of small awards to small rural businesses.

However, others would point out that Commerce, along with the Development Finance Board, is required to actively encourage small businesses to apply for WDF grants and loans by ensuring that there are no impediments to their participation and by assisting small businesses in preparing applications. From July 1, 1995, through March, 1997, 13 small businesses (businesses employing less than 250 employees) received awards totalling $1.4 million from the WDF.

4. To the extent expansion of the RED would direct relatively more financial aid to rural businesses, economic growth would be promoted in areas of the state that tend to have a higher level of unemployment. Thirty-two of the thirty-eight counties with over 50% of the population in towns had unemployment rates over 6% in 1996. Conversely, only one of the 12 urban counties had an unemployment rate that high.

5. Increasing the population of eligible communities from 4,000 to 6,000 would increase the number of eligible communities by 58 from 1,695 to 1,753. The size of eligible businesses would increase from those with 25 to those with 100 employees. Based on information on employers covered by unemployment compensation, it is estimated this change would increase eligible employers by 12%.

6. The increase in the maximum micro-loan amount from $25,000 to $100,000 is designed to make the RED program comparable to other Department general business finance programs and is also expected to generate increased demand for RED financing. Currently, there is a gap between the $25,000 that can be provided to rural businesses under the RED and the amounts that are provided through other financing programs. The maximum working capital and fixed asset financing grant or loan under the minority business development finance (MBDF) program is $100,000. WDF major economic development grants and loans have no statutory limit and are typically well over $100,000.

Financing between $25,000 and $100,000 is available through the federal Community Development Block Grant (CDBG)--economic development program. However, the business must go through a federal application process, obtain agreement from its community to apply for the funding and usually hire a consultant for approximately $2,000 to prepare the application. Commerce indicates that it had to channel six rural business applications through the CDBG program because there was no other program to provide financing of between $25,000 and $100,000.

7. The bill would eliminate the requirement that a business must first receive a RED early planning grant to be eligible for a micro-loan. The eligibility requirement prevents the Department from providing awards to viable projects that would otherwise be eligible for micro-loans. Eliminating the requirement that applicants must have received an early planning grant would make more projects eligible for micro-loans.

8. The micro-loan program would be modified to allow grants as well as loans while the early planning grant program would be modified to require grants. Grants would also increase program participation. It is argued that small businesses are reluctant to apply for loans

because of the additional paperwork and interest costs. On the other hand, loan repayments are a source of additional internal funding for the program.

9. The bill includes a number of provisions that are designed to direct RED financial assistance specifically to farmers and other agribusinesses. These changes include requiring that a significant portion of total RED funding be awarded to agribusinesses, giving award priority to dairy farms and directing Commerce and DATCP staff to cooperate in certain activities. In addition, a new subprogram would provide grants of up to $50,000 each to dairy farms and other agribusinesses for services related to start-up, modernization, expansion or management assistance services. The changes are designed to promote employment and economic growth in the agricultural sector of the state's economy. In addition, small and mid-sized farm businesses would have access to financial assistance. The grant program is a Dairy 2020 initiative.

10. The bill would increase expenditure authority for the Department's gifts and grants appropriation by $200,000 annually to reflect anticipated private sector donations related to agribusiness development. According to DOA, this funding was intended to be the only revenue source for the new grant program. The potential for private sector donations is unclear. However, under the provisions in the bill, awards for this program could be made from any RED appropriation (not to exceed a total of $200,000 annually).

11. Commerce believes that these modifications will significantly increase demand for RED funding. They argue that, under current base level GPR funding, only two micro-loans and four early planning grants of the maximum amount could be made each year. However, if GPR funding increased by $478,500, a total of six micro-loans and 10 early planning grants could be funded. Moreover, since its likely that the maximum amount would not be awarded to all applicants, the number of grants and loans that could be awarded with the additional funding would be substantially higher.

12. There are a number of state-funded programs that provide assistance to farm, agricultural and rural businesses. An argument for not providing or for limiting funding for the RED is that current state assistance services to farm, agricultural and rural businesses are adequate. The Wisconsin Housing and Economic Development Authority (WHEDA) administers the Business Development Bond Program which provides loans to eligible small and medium-sized manufacturing firms. WHEDA also administers the Beginning Farmer Loan program, Credit Relief Outreach program (CROP), Farm Asset Reinvestment Loan Guarantee program and the Agribusiness Loan Guarantee program which provide financial assistance to farmers and agribusinesses to fund certain business expenses.

The University of Wisconsin-Extension provides educational and applied research programs to provide assistance to small businesses and communities for assessment of business development, recruitment and retention. These programs include small business development centers, community and labor force analyses. The extension also provides specialized educational and business services such as the Wisconsin Technology Access program to support business and community economic development.

Similarly, the UW-Extension provides agricultural business management programs and services for farm owners, operators and managers through its campus-based specialists and statewide network of county agents. The Extension also offers educational programming for businesses providing services to farmers. The Extension Center for Cooperatives and Small Business Development Centers provide financial and business programming to the agricultural service sector.

The Department of Agriculture and Consumer Protection (DATCP) also administers a number of programs which provide financial and management assistance to agribusinesses. The Farmers Assistance Program helps farm families address financial, legal and associated personal problems. The Entry-Exit farmer Program assists farmers in transferring operations from individuals exiting the dairy industry to those entering the industry. DATCP also administers an agriculture development and diversification grant program that provides grants to fund demonstration projects, feasibility analyses and applied research toward new or alternative technologies and practices to stimulate agricultural development and economic activity.

13. The biennial funding level of $1.5 million included in the bill for the GPR appropriation represents a 212% increase in GPR funding over the amount provided in 1995-97 ($480,700). If expenditure authority for the program revenue repayments appropriation is included, the $1.7 million appropriated for RED for the 1997-99 biennium would be a 150% increase in funding over the current biennium. When the micro-loan program was originally created in the 1993-95 biennial budget (1993 Wisconsin Act 16) no additional funding was provided. Moreover, at the end of 1994-95, the RED lapsed $368,40. It is estimated that, at the end of fiscal year 1996-97, $205,600 will be lapsed. Current year awards have not been funded from the program revenue repayments appropriation. As noted, expenditure authority of $162,400 PR in 1997-98 and $70,100 PR in 1998-99 would be provided for RED awards. The fact that the GPR appropriation is expected to lapse funds and the repayments funding is available would seem to indicate that the current level of demand for RED financing is restrained and there is some flexibility to absorb increases in demand out of the base funding level. From this view, it is argued that the additional funding is not necessary since demand for RED awards could be absorbed by base level GPR and PR funding. If Commerce found that demand exceeded available RED funding, it could request the transfer of additional WDF funds from the Joint Committee on Finance under s. 13.10 of the statutes.

14. If the Committee decides to deny the increased funding for the RED, it may wish to delete the funding from the Department's budget rather than returning the expenditure authority to the WDF. It is argued that reducing state GPR expenditures would contribute more to economic development than allocating the monies to a few specific businesses. It is noted that many economic studies indicate that the overall level of state spending affects the state business climate. Lower state spending could limit the level of taxation and studies have shown that

relatively low taxes contribute to economic growth. In addition, research suggests that economic development incentives have a modest effect on business location and expansion decisions. Frequently, the cost of incentives of businesses that are unaffected exceeds the benefits generated by the businesses that receive the incentives. Finally, if the reduction in GPR expenditures is used to provide funding for increased state support for public schools, the funding would contribute to a reduction in property taxes for all state businesses. The significant decrease in school property taxes in the state should act as an incentive for business locations and expansion. As it indicates in its 1997-99 base reduction plan, the Department could work to leverage additional funding to offset the amount deleted from the WDF.

Others would argue that not replacing the WDF expenditure authority would be detrimental to economic development in the state. They point to a number of economic research studies which indicate that incentives contribute to job growth and economic development. Studies have shown a positive relationship between the per capita level of state development expenditures and the growth of a state's manufacturing sector. In addition, increased local employment has significant labor market benefits for local residents. Increasing an area's level of employment raises the average real earnings of local residents. Moreover, growth in local employment has greater benefits for disadvantaged groups; the earnings of the less-educated have been shown to increase by a greater percentage than those of the more-educated. The same relationship exists for the comparative earnings of African-Americans and whites. Supporters would note that over 1,100 jobs were retained and 1,045 new jobs were created as a result of WDF awards through the customized labor training (CLT) and major economic development (MED) grant and loan subprograms in fiscal year 1995-96. In addition, CLT awards improve the quality of the workforce which is also a factor affecting location and expansion decisions. Technology development grants and loans encourage research and development and capital investment by Wisconsin firms. Some would argue that replacing the WDF funding would have a greater effect on state economic development than would lapsing the amount to the general fund.

15. As an alternative, the Committee may wish to limit the amount of the transfer from the WDF to $200,000 annually. At the minimum, this amount would allow the Department to make two additional micro-loans each year. If Commerce found that demand for RED financing exceeded available funding, transfer of additional WDF funds from the Joint Committee on Finance under s. 13.10 of the statutes could be requested.

16. In its 1997-99 budget reduction plan, the Department indicates that RED funding could be reduced by $35,200 GPR in 1997-98 and $15,000 GPR in 1998-99. The reduction would result in less funding for RED projects. However, the Department indicates that if the initiatives recommended in the budget are adopted, it would still allow Commerce to increase and improve its level and type of activities over the current level of activities. Another alternative would be to delete these amounts from RED funding for 1997-99.

ALTERNATIVES TO BILL

1. Approve the Governor's recommendation to: (a) increase the GPR appropriation by $478,500 GPR annually to reflect funding transferred from the WDF, provide expenditure authority of $200,000 PR annually for the Department's gifts and grants program revenue appropriation to reflect anticipated private sector donations related to agribusiness development and provide expenditure authority for the repayments appropriation of $82,900 PR in 1997-98 and decrease expenditure authority by $9,400 in 1998-99; (b) modify the definition of a rural municipality to include a city, town or village with a population of up to 6,000 and an eligible business to be a business with fewer than 100 employees; (c) require the RED Board to award from 25% to 50% of the total amount of funds for an agricultural business and give priority to a dairy farm; (d) reduce the maximum award for professional services and management assistance (early planning grants) from $30,000 to $15,000 and awards could only be made as grants; (e) increase the maximum award that could be provided for working capital, fixed asset financing and employee relocation costs to $100,000 and awards could be made as grants as well as loans; (f) eliminate the requirement that, in order to receive an award, a business must have received a RED early planning grant; and (g) create a new grant program that would provide grants of up to $50,000 to a person or business that proposes to start-up, modernize or expand a dairy farm or other agricultural business in the state. The total amount of grants awarded under the program could not exceed $200,000 for a fiscal year.

2. Modify the Governor's recommendations to delete RED funding of $35,200 GPR in 1997-98 and $15,000 GPR in 1998-99.

Alternative 2	GPR
1997-99 FUNDING (Change to Bill)	- $50,200

3. Make one or more of the following modifications to the Governor's recommendations:

a. Limit the maximum micro-loan to $25,000 rather than $100,000.

b. Require that working capital, fixed asset financing and employe relocation awards continue to be made as loans rather than grants. Also, continue to allow early planning grant awards to be made as loans.

c. Delete the requirement that between 25% to 50% of the total amount of RED biennial awards be for purposes related to an agricultural business.

d. Eliminate the requirement that the RED Board give priority to grants and loans for dairy farms.

e. Delete the new grant program for farm start-ups, expansions and modernization and delete the related $200,000 PR annual expenditure authority.

Alternative 3e	PR
1997-99 FUNDING (Change to Bill)	- $200,000

f. Specify that the $200,000 PR in annual expenditure authority to reflect anticipated private sector donations related to agribusiness development be the sole source of funding for the new grant program for farm start-ups, modernization and expansions.

4. Modify the Governor's recommendation to transfer $200,000 GPR annually (rather than $478,500) from the WDF to the RED.

5. Modify the Governor's recommendation to transfer $200,000 GPR annually from the WDF to the RED and delete $278,500 GPR annually from the WDF.

Alternative 5	GPR
1997-99 FUNDING (Change to Bill)	- $557,000

6. Modify the Governor's recommendation to delete the transfer of $478,500 GPR annually from the WDF to the RED.

7. Modify the Governor's recommendation to delete $478,500 GPR in annual funding from the WDF but not to increase the RED.

Alternative 7	GPR
1997-99 FUNDING (Change to Bill)	- $957,000

8. Maintain current law.

Alternative 8	PR
1997-99 FUNDING (Change to Bill)	- $473,500

Prepared by: Ron Shanovich

MO# 3f

BURKE	Y	N	A
DECKER	Y	N	A
GEORGE	Y	N	A
JAUCH	Y	N	A
WINEKE	Y	N	A
SHIBILSKI	Y	N	A
COWLES	Y	N	A
PANZER	Y	N	A
1 JENSEN	Y	N	A
2 OURADA	Y	N	A
HARSDORF	Y	N	A
ALBERS	Y	N	A
GARD	Y	N	A
KAUFERT	Y	N	A
LINTON	Y	N	A
COGGS	Y	N	A

AYE 15 NO 0 ABS 1

MO# Alt 2

2 BURKE	Y	N	A
1 DECKER	Y	N	A
GEORGE	Y	N	A
JAUCH	Y	N	A
WINEKE	Y	N	A
SHIBILSKI	Y	N	A
COWLES	Y	N	A
PANZER	Y	N	A
JENSEN	Y	N	A
OURADA	Y	N	A
HARSDORF	Y	N	A
ALBERS	Y	N	A
GARD	Y	N	A
KAUFERT	Y	N	A
LINTON	Y	N	A
COGGS	Y	N	A

AYE 15 NO 0 ABS 1

MO# Alt 5

2 BURKE	Y	N	A
1 DECKER	Y	N	A
GEORGE	Y	N	A
JAUCH	Y	N	A
WINEKE	Y	N	A
SHIBILSKI	Y	N	A
COWLES	Y	N	A
PANZER	Y	N	A
JENSEN	Y	N	A
OURADA	Y	N	A
HARSDORF	Y	N	A
ALBERS	Y	N	A
GARD	Y	N	A
KAUFERT	Y	N	A
LINTON	Y	N	A
COGGS	Y	N	A

AYE 9 NO 6 ABS 1

Senator Decker

COMMERCE

Rural Economic Development Program

Motion:

Move to modify the definition of eligible business under the Rural Economic Development program to be a business that, together with any affiliate, subsidiary or parent entity, has fewer than 50, rather than 25 employes.

Note:

Currently, eligible applicants for RED grants and loans are businesses that meet the following criteria: (a) employ fewer than 25 persons; (2) are located in a rural municipality (a city, village or town with a population of 4,000 or less or a municipality located in a county with a population density less than 150 persons per square mile); and (3) are starting or expanding operations. This motion would modify the definition of eligible business to include businesses with fewer than 50 employes. SB 77 would increase the figure to 100 employes.

MO# 1113

2 BURKE	Y	N	A
1 DECKER	Y	N	A
GEORGE	Y	N	A
JAUCH	Y	N	A
WINEKE	Y	N	A
SHIBILSKI	Y	N	A
COWLES	Y	N	A
PANZER	Y	N	A
JENSEN	Y	N	A
OURADA	Y	N	A
HARSDORF	Y	N	A
ALBERS	Y	N	A
GARD	Y	N	A
KAUFERT	Y	N	A
LINTON	Y	N	A
COGGS	Y	N	A

Motion #1113

AYE 14 NO 1 ABS 1

Senator Decker

COMMERCE

Rural Economic Development Program--Farm and Agribusiness Grant Program

Motion:

Move to modify provisions of Senate Bill 77 to decrease, from $50,000 to $15,000, the maximum grant that could be awarded under the new Rural Economic Development program for dairy farm or agribusiness start-ups, expansions or modernizations.

Note:

Senate Bill 77 would create a new grant program under the RED that would provide grants to a person or business that proposes to start-up, modernize or expand a dairy farm (as defined in the statutes) or other agricultural business in the state. In order to receive a grant, the person or business would have to own, either currently or in the future, the dairy farm or other agricultural business. Also, it would have to be likely that the grant would result in the start-up, modernization or expansion of the dairy farm or other agricultural business. Grant proceeds could be used to pay for services related to the start-up, modernization or expansion of the dairy farm or other agricultural business or for management assistance which would continue after completion of the start-up, modernization or expansion. Management assistance would include engineering and legal services and professional assistance in establishing or improving management systems, policies or procedures in such management concerns as financial planning, personnel, inventory control, production planning, purchasing, bookkeeping, record keeping and marketing. The maximum grant that could be awarded under the program would be $50,000. The total amount of grants awarded under the program could not exceed $200,000 for a fiscal year.

This motion would reduce the maximum grant that could be awarded under the program from $50,000 to $15,000.

Motion #2010

MO# 2010

BURKE	Y	N	A
DECKER	Y	N	A
GEORGE	Y	N	A
JAUCH	Y	N	A
WINEKE	Y	N	A
SHIBILSKI	Y	N	A
COWLES	Y	N	A
PANZER	Y	N	A
JENSEN	Y	N	A
OURADA	Y	N	A
HARSDORF	Y	N	A
ALBERS	Y	N	A
GARD	Y	N	A
KAUFERT	Y	N	A
LINTON	Y	N	A
COGGS	Y	N	A

AYE 8 NO 7 ABS 1

Senator Wineke

COMMERCE

Grant and Loan Programs

Motion:

Move to delete $11,180,800 GPR and 30.0 GPR positions annually to eliminate GPR funding for the Wisconsin Development Fund, Minority Business Development Finance program, Business Development Initiative program, Rural Economic Development program, and Community-Based Economic Development program and for administration of those programs. Reduce the state corporate income and franchise tax rate from 7.9% to 7.78%, beginning with tax year 1997.

Note:

Commerce administers a number of grant and loan programs that provide financial assistance to state businesses. GPR funding is provided through the Wisconsin Development Fund, Minority Business Development Finance program, Business Development Initiative program, Rural Economic Development program and Community-Based Economic Development program. This motion would delete funding for those programs and the associated administrative funding and positions provided under SB 77.

Based on current revenue estimates, corporate income and franchise tax collections are projected to be $650 million in 1996-97, $642 million in 1997-98 and $655 million in 1998-99. The current corporate tax rate is 7.9%. This motion would reduce the rate to 7.78% beginning with tax year 1997. As a result, there would be an estimated decrease in corporate income tax collections of $11 million in 1997-98 and 1998-99. In addition, there would be a one-time revenue reduction of $3 million to reflect the reconciliation of tax year and calendar year tax payments.

[Change to Base: -$25,000,000 GPR-Rev, -$22,360,000 GPR]
[Change to Bill: -$25,000,000 GPR-Rev, -$22,360,000 GPR]

MO# 1587

2 BURKE	Y	N	A
DECKER	Y	N	A
GEORGE	Y	N	A
JAUCH	Y	N	A
1 WINEKE	Y	N	A
SHIBILSKI	Y	N	A
COWLES	Y	N	A
PANZER	Y	N	A
JENSEN	Y	N	A
OURADA	Y	N	A
HARSDORF	Y	N	A
ALBERS	Y	N	A
GARD	Y	N	A
KAUFERT	Y	N	A
LINTON	Y	N	A
COGGS	Y	N	A

AYE 2 NO 13 ABS 1

To: Joint Committee on Finance

From: Bob Lang, Director
Legislative Fiscal Bureau

ISSUE

Funding for Forward Wisconsin (Commerce)

[LFB Summary: Page 119, #7]

CURRENT LAW

The Department of Commerce provides funding to Forward Wisconsin to establish and implement a nationwide business development campaign. State funds may be used for advertising, marketing and promotional activities within the U.S. and for salary, travel and other expenses directly incurred by the organization in its economic development promotion activities. The base funding level for aid to Forward Wisconsin is $250,000 GPR.

GOVERNOR

Provide an additional $250,000 annually in funding for Forward Wisconsin.

DISCUSSION POINTS

1. Forward Wisconsin is a nonprofit organization created in 1984 to promote economic development in Wisconsin. More recently, the organization has focused on marketing Wisconsin to out-of-state companies interested in relocating or expanding their operations. Forward Wisconsin has a staff of 12 people and offices in Madison, Chicago and Eau Claire. The organization is funded primarily through private contributions and state aid provided through Commerce.

2. Forward Wisconsin uses the following marketing programs to promote the state:

a. **Direct Mail.** The direct mail campaign includes personalized letters, most sent with the Governor's signature, to business executives. The items sent include a variety of presentations, offers and enclosures which attempt to encourage responses from companies with definite expansion or relocation plans. In 1995-96, personalized letters were sent to 28,387 business executives.

b. **Telemarketing.** The agency makes phone contact with executives who receive direct mail letters. Most calls are made to schedule appointments with prospects in conjunction with the agency's prospecting trips. The agency made direct contact with 15,256 executives in 1995-96.

c. **Prospecting Trips.** Following direct mail and telephone contacts, companies that express an interest in a Wisconsin business location are visited by Forward Wisconsin representatives. In 1995-96, Forward Wisconsin representatives scheduled 155 appointments in two different cities.

d. **Trade Shows.** The agency maintains exhibits at trade shows in different cities. Forward Wisconsin staff and volunteers distribute information from booths and call on exhibitors and targeted firms in the cities that host the shows. In 1995-96, Forward Wisconsin participated in three trade shows in different cities across the U.S.

e. **Advertising.** The organization places advertisements in major economic development magazines and in annual directories used by corporate planners. The agency estimates that print advertisements generated 119 requests for additional information.

In addition, Forward Wisconsin publishes certain promotional materials including a newsletter and cosponsors, coordinates or hosts a number of special events, such as the Greater Milwaukee Open. Also, during 1995-96, Forward Wisconsin conducted specialized campaigns for wood industries, metal working industries and a Milwaukee project focused on financial institutions and telemarketers.

3. It is difficult to quantitatively measure the success of an economic development program since many factors are usually involved in a decision to relocate or expand a business in Wisconsin. Many of Forward Wisconsin's efforts that the organization has identified as successful were accomplished jointly with local and regional economic development organizations, state businesses and the Department of Commerce.

Historically, some have criticized Forward Wisconsin for duplicating the economic development activities that are performed by other state and local agencies. During the 1980's and early 1990's there was concern that Forward Wisconsin and Commerce (then the Department of Development) were performing similar functions for promoting and facilitating in-state marketing and economic development and international trade.

4. There are a number of arguments that can be made for continued state funding for Forward Wisconsin:

- Forward Wisconsin makes a significant contribution to economic growth and job creation in Wisconsin. The organization uses two measures in evaluating the success of its efforts: the number of leads and the number of prospects generated. Prospects are defined as out-of-state companies that have definite expansion or relocation plans and will consider Wisconsin as a possible site. Leads are out-of-state companies that are experiencing strong growth but whose management is less certain about their short-term expansion plans. During Forward Wisconsin's 1995-96 fiscal year, it generated 201 new leads and 107 new prospects, out of over 15,000 calls and requests for additional information. The organization estimates that the prospects generated during 1995-96 will result in 881 jobs for Wisconsin workers.

- Commerce and Forward Wisconsin have developed separate defined roles in the state's overall economic development strategy. In recent years, Forward Wisconsin has been focussing its activities primarily on out-of-state marketing. Moreover, Forward Wisconsin is relocating its Madison office with Commerce in the WHEDA building. This will allow for closer coordination of both organizations economic development activities.

- Forward Wisconsin is a public/private cooperative venture. Businesses contribute to the organization, in part, because of the state's financial commitment. In 1995-96, private businesses contributed over $500,000 to Forward Wisconsin. Reducing the state commitment could also have the effect of reducing private contributions.

5. Forward Wisconsin's projected revenue for 1996-97 is $1,153,700. Seventy-eight percent ($902,500) is expected to come from private contributions. The remaining funding is aid from the state through Commerce ($250,000), interest and other miscellaneous revenue. In 1995-96, the organization received $755,230 with $505,230 (66%) in private contributions and $250,000 from the state.

6. Forward Wisconsin received $500,000 in state funding each fiscal year from 1984-85 through 1991-92. The organization received $400,000 in 1991-92 and in 1992-93. For fiscal years 1993-94 and 1994-95, $500,000 in state funding was again provided. However, in the 1995-97 budget bill, the Governor recommended deleting $250,000 in 1995-96 and all $500,000 of state funding for Forward Wisconsin in 1996-97. As a result, under the bill, state funding for Forward Wisconsin would have been eliminated, beginning in 1996-97. It was believed that Forward Wisconsin was performing activities related to site selection that were similar to Commerce. If Forward Wisconsin stopped performing such a function, its lower operating costs would not require state support. Moreover, it was also believed that, if the elimination of state support caused Forward Wisconsin to reduce its operations, Commerce could expand its activities, such as its advertising campaign, to replace Forward Wisconsin. However, the administration subsequently requested and the Legislature approved, the transfer of $250,000 from the WDF repayments appropriation to provide funding for Forward Wisconsin in 1996-97.

7. Some would argue that the level of state funding for Forward Wisconsin should not be increased. Forward Wisconsin received total revenue of $1.2 million in 1994-95, when it received $500,000 in state funding, and is projecting approximately the same amount ($1.15 million) for 1996-97, with state funding of $250,000. Arguably, private contributions have offset the reduction in state funding. It is also argued that economic development strategies have shifted away from business recruitment and focused more on business retention, technology transfer and export markets. As noted, Forward Wisconsin has historically focussed on recruiting out-of-state businesses. In the past, Forward Wisconsin duplicated certain activities that were performed by Commerce, such as attempting to act as a liaison for business relocations and developing financing packages. The changing emphasis in economic development activities and elimination of duplicated activities reduce the need for an increased level of state funding.

8. The Governor identifies the $250,000 annually provided to Forward Wisconsin with an equivalent reduction in the WDF. If the Committee decides to not provide increased funding for Forward Wisconsin, it may wish to delete the funding from Commerce's budget rather than returning the expenditure authority to the WDF. It could be argued that reducing state GPR expenditures would contribute more to economic development than allocating the monies to a limited number of businesses. In addition, research suggests that economic development incentives have a modest effect on business location and expansion decisions. Finally, if the reduction in GPR expenditures is used to provide funding for increased state support for public schools, the funding would contribute to a reduction in property taxes for all state businesses. As it indicates in its 1997-99 base reduction plan, the Department could work to leverage additional funding to offset the amount deleted from the WDF.

9. Commerce and DOA argue that not replacing the WDF expenditure authority would be detrimental to economic development in the state. They point to a number of economic research studies which indicate that incentives contribute to job growth and economic development. Studies have shown a positive relationship between the per capita level of state economic development expenditures and the growth of a state's manufacturing sector. In addition, increased local employment has significant labor market benefits for local residents. Proponents note that over 1,100 jobs were retained and 1,045 new jobs were created as a result of WDF awards through the customized labor training (CLT) and major economic development (MED) grant and loan subprograms in fiscal year 1995-96. Therefore, it is argued that replacing the WDF funding would have a greater effect on state economic development than would lapsing the amount to the general fund.

10. In its 1997-99 base reduction plan the Department proposes transferring $150,000 annually from the WDF to Forward Wisconsin. The Department indicates that the additional $100,000 reduction under SB 77 from the suggested amount would limit the increase and improvement in services and marketing that could be provided by Commerce. However, the additional $150,000 in annual funding (rather than $250,000 under the bill) would still allow Forward Wisconsin to increase its services and marketing level and to continue to cover the cost of its operations.

In a separate provision, the Department also proposes reducing the funding for the WDF by $235,500 annually. The Department indicates that this proposal would reduce funding that would be available for financing projects and as a result, would reduce the number of jobs that could be created or retained. However, Commerce would work to offset the reduction by leveraging more private funding for projects. In part, the proposed reduction in WDF funding reflects the additional funding in the WDF that would remain ($100,000 annually) because the amount transferred to Forward Wisconsin ($150,000 annually) would be reduced. As an alternative the Committee could adopt the Commerce proposals to transfer $150,000 annually from the WDF to Forward Wisconsin. In addition, $100,000 annually could be deleted from the WDF.

ALTERNATIVES TO BILL

1. Approve the Governor's recommendation to provide $250,000 annually for Forward Wisconsin.

2. Delete the Governor's recommendation to provide $250,000 annually for Forward Wisconsin and restore an equal amount to the WDF.

3. Delete the Governor's recommendation to provide $250,000 annually for Forward Wisconsin.

Alternative 3	GPR
1997-99 **FUNDING** (Change to Bill)	- $500,000

4. Modify the Governor's recommendation to provide $150,000 annually in funding to Forward Wisconsin.

Alternative 4	GPR
1997-99 **FUNDING** (Change to Bill)	- $200,000

5. Modify the Governor's recommendation to provide $150,000 annually in funding to Forward Wisconsin and restore $100,000 annually to the WDF.

6. Maintain current law.

Prepared by: Ron Shanovich

MO# Alt 3

2	BURKE	Y	N	A
1	DECKER	Y	N	A
	GEORGE	Y	N	A
	JAUCH	Y	N	A
	WINEKE	Y	N	A
	SHIBILSKI	Y	N	A
	COWLES	Y	N	A
	PANZER	Y	N	A
	JENSEN	Y	N	A
	OURADA	Y	N	A
	HARSDORF	Y	N	A
	ALBERS	Y	N	A
	GARD	Y	N	A
	KAUFERT	Y	N	A
	LINTON	Y	N	A
	COGGS	Y	N	A

AYE 5 NO 10 ABS 1

MO# Alt 1

	BURKE	Y	N	A
	DECKER	Y	N	A
	GEORGE	Y	N	A
	JAUCH	Y	N	A
	WINEKE	Y	N	A
	SHIBILSKI	Y	N	A
	COWLES	Y	N	A
1	PANZER	Y	N	A
2	JENSEN	Y	N	A
	OURADA	Y	N	A
	HARSDORF	Y	N	A
	ALBERS	Y	N	A
	GARD	Y	N	A
	KAUFERT	Y	N	A
	LINTON	Y	N	A
	COGGS	Y	N	A

AYE 9 NO 6 ABS 1

To: Joint Committee on Finance

From: Bob Lang, Director
Legislative Fiscal Bureau

ISSUE

Moving Costs (Commerce)

[LFB Summary: Page 119, #8]

CURRENT LAW

The Department of Commerce is provided $801,100 ($431,500 GPR, $277,200 PR and $92,400 SEG) in base funding for rent costs.

GOVERNOR

Provide increased funding of $148,800 GPR, $598,300 PR and $395,000 SEG in 1997-98 and $168,400 GPR, $698,500 PR and $453,300 SEG in 1998-99 to fund costs related to the Department's move into the new Wisconsin Housing and Economic Development Authority (WHEDA) building.

DISCUSSION POINTS

1. On February 22, 1996, the State Building Commission approved a 20-year lease agreement for approximately 88,900 square feet for the Departments of Tourism and Commerce. The lease agreement authorized annual lease costs not to exceed $1,954,750 (or $22 per square foot for the maximum authorized square footage).

2. The Commission approved the lease because the new WHEDA building would create a single location that would be the focus of all state economic development activities. By having close proximity to each other, and through the sharing of common facilities, it is believed

that WHEDA, Commerce, Tourism and Forward Wisconsin would be better able to cooperatively address the state's business development needs. Moreover, Commerce has assumed functions previously performed by other departments, such as administration of PECFA, and has outgrown its space in the Lorraine building. The Division of Safety and Buildings will be moving out of its current space in GEF 1, which will be used for programs and functions, such as administration of the Division of Economic Support, which have been transferred to DWD.

3. The Department currently rents 53,966 square feet (29,109 square feet at the Lorraine building and 24,857 square feet at GEF 1) at the average rate of $15.10 per square foot. The Department will rent 78,660 square feet (46% increase) in the new WHEDA building at about $22 per square foot (46% more) for total rent of $1,764,800 annually.

4. Table 1 shows the funding for the different costs associated with the move. It should be noted that the Department of Administration will purchase furniture for Commerce through a five-year masterlease of $200,000 annually. Those amounts are not included in the table.

TABLE 1

Department of Commerce Moving Costs
1997-99

Expense	1997-98	1998-99
Rent		
GPR	$90,500	$165,000
PRO	310,600	471,800
SEG	234,500	326,900
Total	$635,600	$963,700
Furniture		
GPR	$3,400	$3,400
PRO	226,700	226,700
SEG	126,400	126,400
Total	$356,500	$356,500
Move		
GPR	54,900	
PRO	61,000	
SEG	34,100	
Total	$150,000	
Subtotals		
GPR	$148,800	$168,400
PR	598,300	698,500
SEG	395,000	453,300
TOTAL	**$1,142,100**	**$1,320,200**

5. Based on the Building Commission action, Commerce would be allowed up to 75,900 square feet (with 13,000 square feet budgeted for Tourism) at a cost not to exceed $1,669,800 annually. Therefore, Commerce rent costs associated with the new building could be reduced by $62,700 in 1997-98 and $95,000 in 1998-99. (If Tourism occupies less than the 13,000 square feet budgeted and Commerce occupies more than budgeted, an adjustment between the agencies could be requested under s. 13.10.) Funding under the bill could be reduced either: (a) all from GPR, consistent with the Governor's budget efficiency measures; or (b) proportionally from the three funding sources. While the current lease exceeds the figures approved by the Building Commission, Commerce and DOA argue that actual lease costs typically differ from estimates approved by the Commission. Further, DOA states that approval of increased costs are not typically sought, nor are area increases unless they exceed 10,000 square feet.

6. In its budget reduction measures provided to the Governor as part of its 1997-99 budget submission, the Department identified the following GPR funding that could be deleted: (a) $75,500 in 1997-98 and $67,600 GPR in 1998-99 in supplies and services funding in the Division of International and Export Development; and (b) $25,000 annually from the hazardous pollution prevention contract appropriation. The bill did not include these potential reductions identified by the Department. Therefore, the Committee could delete $100,500 GPR in 1997-98 and $92,600 GPR in 1998-99 in funding for the moving costs to reflect these potential base funding reductions. Alternatively, the Committee could delete all funding for moving costs and require the Department to fund the costs out of base level funding. When the agency was reorganized during the 1995-97 budget, DOA indicated that all costs associated with agency reorganizations would be funded from base level appropriations.

7. The Department indicates that, to achieve the base level reductions identified, it would have to substantially reduce its staff and, as a result, its economic development and regulatory activities. SB 77 includes a provision which would convert $496,900 GPR and 7.56 GPR positions to the Department's program revenue services appropriation. The conversion reflects reorganization of the Department. The reduction in GPR expenditures is intended to be a method for internally funding the moving costs. In order to fund the PR moving costs from its base, the Department would be required to eliminate 9.5 positions that staff programs that are required by statute or rule. Similarly, to fund the SEG costs from the base, the Department would have to eliminate 7.5 positions. Some of these would be from PECFA review and claims processing.

ALTERNATIVES TO BILL

1. Approve the Governor's recommendation.

2. Modify the Governor's recommendation, based on Building Commission estimates, and delete $62,700 GPR in 1997-98 and $95,000 GPR in 1998-99 for rent under one of the following methods:

a. All from GPR.

Alternative 2a	GPR
1997-99 FUNDING (Change to Bill)	- $157,700

b. Delete $8,000 GPR, $33,200 PR and $21,500 SEG in 1997-98 and $12,100 GPR, $50,300 PR and $32,600 SEG in 1998-99.

Alternative 2b	GPR	PR	SEG	TOTAL
1997-99 FUNDING (Change to Bill)	- $20,100	- $83,500	- $54,100	- $157,700

3. Modify the Governor's recommendation to delete an additional $100,500 GPR in 1997-98 and $92,600 GPR in 1998-99 related to moving costs.

Alternative 3	GPR
1997-99 FUNDING (Change to Bill)	- $193,100

4. Maintain current law.

Alternative 4	GPR		TOTAL
1997-99 FUNI	00	- $1	,300

Prepared by: Ron

MO# Alt 2a and 3

2 BURKE	Y	N	A
1 DECKER	Y	N	A
GEORGE	Y	N	A
JAUCH	Y	N	A
WINEKE	Y	N	A
SHIBILSKI	Y	N	A
COWLES	Y	N	A
PANZER	Y	N	A
JENSEN	Y	N	A
OURADA	Y	N	A
HARSDORF	Y	N	A
ALBERS	Y	N	A
GARD	Y	N	A
KAUFERT	Y	N	A
LINTON	Y	N	A
COGGS	Y	N	A

AYE 6 NO 9 ABS 1

MO# 2b

BURKE	Y	N	A
DECKER	Y	N	A
GEORGE	Y	N	A
JAUCH	Y	N	A
WINEKE	Y	N	A
SHIBILSKI	Y	N	A
COWLES	Y	N	A
PANZER	Y	N	A
1 JENSEN	Y	N	A
2 OURADA	Y	N	A
HARSDORF	Y	N	A
ALBERS	Y	N	A
GARD	Y	N	A
KAUFERT	Y	N	A
LINTON	Y	N	A
COGGS	Y	N	A

AYE 12 NO 3 ABS 1

To:	Joint Committee on Finance
From:	Bob Lang, Director Legislative Fiscal Bureau

ISSUE

Economic Development Promotion Funding (Commerce)

[LFB Summary: Page 119, #9]

CURRENT LAW

The economic development promotion appropriation has base level funding of $120,000 GPR.

GOVERNOR

Provide $40,000 GPR annually to the economic development promotion appropriation to reflect the transfer of funding from the Wisconsin Development Fund ($15,000), Community-Based Economic development program ($20,000) and economic and community development general program operations ($5,000) GPR appropriations. The bill would also modify the economic development promotion appropriation to provide that it could be used to fund plans and studies. The plans and studies would include reports associated with the Department's responsibilities related to: business and industrial development; economic development promotion, planning and research; cooperation with other entities; and technology-based economic development.

DISCUSSION POINTS

1. Economic development promotion funds are generally used for a number of purposes including advertising, printing various publications and promotion and public relations activities. The following table shows amounts projected to be expended for the different

activities funded through the economic development promotion appropriation in fiscal year 1996-97.

Economic Development Promotion -- 1996-97

Category	Amount	Percent
Paid Advertising	$34,600	28.9%
Public Relations	30,400	25.3
Printing & Publications	19,000	15.8
Special Major Projects	36,000	30.0
Total	$120,000	100.0%

2. The state's marketing plans consists of the following four elements:

Paid Advertising. Advertising which disseminates information about state economic development programs and services through special sections on economic development in magazines and newspapers;

Public Relations. Activities which develop press releases and work directly with media outlets to enhance the image of Wisconsin as a partner with business. Public relations activities also involve sponsoring special events, undertaking joint projects with entities such as Forward Wisconsin, and making collateral materials available such as award certificates, advertising specialty items or display booths at events;

Printing and Publications. Publications which provide staff with materials, such as fact sheets, state and local profiles and program brochures, to distribute to businesses. The Department also produces special publications such as "Starting a Business," "Wisconsin Financing Alternatives," and "Business Help Directory" for staff to use and distribute as they work with business prospects;

Special Major Projects. Projects which involve developing major prospect proposals and sponsoring major special events such as the Governor's Economic Development Conference and the Venture Capital Fair.

3. The Department's economic development advertising appropriation was changed in the 1981-83 biennial budget to the current economic development promotion appropriation to permit the funds to be used for promotional activities besides advertising. Since then, the amounts appropriated have ranged from $81,100 in 1983-84 to $235,200 in 1990-91. Since 1989-90, Commerce has been appropriated at least $120,000 annually for economic development promotion.

4. Commerce has recently developed and is currently implementing a strategic plan. During the planning process, focus groups indicated the importance of initiating a broader look at Wisconsin's economic development needs. In response, the Governor's Blue Ribbon Commission was established in July, 1996. The Commission has recommended that the state's economic development agencies and educational institutions work together to examine and address the state's economic development efforts and needs.

5. The Department has identified a number of current economic trends which could affect the effectiveness of its existing programs and policies. These trends include: continued reductions in federal funding; increased labor shortages; deregulation of the telecommunications and electric utility industries; regional disparities in economic growth; globalization of the world economy; pending retirements in the automobile industry; pressure for compliance with environmental standards; redevelopment of contaminated lands; and promotion of employment opportunities for minorities. It is argued that these factors require systematic and in-depth research and analysis to assess their scope and magnitude, identify options, and to formulate recommendations to address them.

6. The Department indicates that the $40,000 annual transfer to economic development promotion would be used to contract with state colleges and universities to conduct research projects that would focus on economic development issues and to integrate the findings into the state's economic development promotion efforts. The number of research projects that could be contracted would vary depending on the scope of the project. It is anticipated that two to three studies estimated to cost between $12,000 and $20,000 would be funded each year.

7. As noted, funding is transferred from three different sources--$20,000 from CBED; $15,000 from WDF; $5,000 from economic and community development general program operations. It is argued that CBED is an appropriate source because the program currently provides localities with grants of up to $10,000 to develop economic diversification plans. The transferred funding will be used to fund research that could be used by local governments in their economic development plans. The transfer from the WDF would be appropriate because the research would be used to promote job creation and economic development that would be consistent with WDF program goals. Finally, it is argued that transferring funding from the economic and community development general program operations appropriation is warranted because the research that would be funded would be used to determine the types of programs and activities these divisions will be promoting and implementing.

8. In the 1995-97 budget bill the Governor recommended deleting all funding and the separate appropriation for economic development promotion. The appropriation was recommended for elimination as part of the effort to generate agency budget efficiencies and to provide funds for increased state support of general school aids. It was believed that Commerce could fund its economic development promotion activities by reallocating supplies and services funding and/or by reallocating salaries funding for vacant positions. Subsequently, the administration requested that $150,000 annually be transferred from the WDF. The

administration indicated that the business publications and proposals for business prospects that were funded through the appropriation were critical for attracting and retaining business. In 1995 Wisconsin Act 27 (the 1995-97 biennial budget), $120,000 annually was appropriated to fund economic development promotion.

9. It could be argued that additional funding is not necessary, but, instead, the existing funding for economic development promotion should be used to fund the research studies. For example, in 1996-97, $36,000 will be used to fund special projects. If the appropriation language is modified, some of this amount could be used to fund the studies. Moreover, the economic and community development general program operations appropriation would be provided supplies and services funding of $1,986,700 in 1997-98 and $1,961,600 in 1998-99. Some of this funding could be reallocated to supplement economic development expenditures. However, reallocating the current level of funding to additional uses would reduce the amount available for current activities.

10. All states promote themselves as good places to do business. States commonly advertise their most attractive attributes and economic development programs through newspapers, videos and trade shows. In addition, state economic development departments frequently help businesses comply with government regulations. The agencies also provide information on possible sites for business location in the state.

The fact that all the states engage in economic development promotion could be viewed as an indication that such activities contribute to economic growth. In recent years, empirical studies and economic development strategies have identified new small business start-ups and expansions of existing businesses as primary sources of employment growth for states. Since Commerce's promotional activities focus on in-state businesses, the Department's economic development promotion funding could be justified as a factor in the state's efforts to create jobs. The promotional material and services would be a source of information about different sources of financing and technical assistance available to small and expanding businesses, which would not typically have expertise or resources in these areas.

On the other hand, it could be argued that it is difficult to quantify a direct, cause and effect relationship between economic development promotion and a specific number of jobs that are created or a specific amount of economic growth that occurs as a result. Those holding this view would point to the economic studies and surveys which indicate that specific economic development programs have little effect on growth. Moreover, it is further argued, that even if it is accepted that promotional activities are necessary, one cannot precisely determine the most efficient level of support for such activities. From this view, it not clear that Commerce requires the additional support to ensure its economic development activities are effective.

11. If the Committee decides to deny the increased funding for economic development promotion, returning the expenditure authority to CBED, the WDF and the economic and community development general operations appropriation could be considered. It is argued that

reducing state GPR expenditures would contribute more to economic development than allocating the monies to a few specific businesses. In addition, research suggests that economic development incentives have a modest effect on business location and expansion decisions. If the reduction in GPR expenditures is used to provide funding for increased state support for public schools, the funding would contribute to a reduction in property taxes for all state businesses. As it indicates in its 1997-99 base reduction plan, the Department could work to leverage additional funding to offset the amount deleted from the WDF and CBED. Finally, it is argued that the general program operations appropriation has sufficient supplies and services funding to absorb a $5,000 reduction.

Others would argue that not replacing the expenditure authority would be detrimental to economic development in the state. A number of economic research studies indicate that incentives contribute to job growth and economic development. Studies have shown a positive relationship between the per capita level of state economic development expenditures and the growth of a state's manufacturing sector. In addition, increased local employment has significant labor market benefits for local residents. From this view, replacing the funding would have a greater effect on state economic development than would lapsing the amount to the general fund.

12. As an alternative, the Committee may wish to provide the $40,000 only in 1997-98. It could be argued that it is not necessary to provide an annual increase in funding to contract for research studies. Most of the analyses conducted should have application beyond the current year. Department staff also have access to professional journals and other economic development personnel that would be a source of information about current economic trends and methods for addressing them. If the Department found that it needed additional funding for research studies, it could request approval of additional transfers from the Joint Committee on Finance under s. 13.10 of the statutes. However, under this alternative, the Department would not have a base level funding increase to finance studies that might be necessary to adapt economic development promotion activities to future changes in economic trends. Again, if the Committee wished $40,000 could be deleted from the Department's budget in 1998-99.

ALTERNATIVES TO BILL

1. Approve the Governor's recommendation to provide $40,000 GPR annually to the economic development promotion appropriation to transfer funding from the WDF ($15,000 annually), CBED ($20,000 annually) and economic and community development general program operations ($5,000 annually) PR appropriations. Modify the economic development promotion appropriation to provide that it could be used for plans and studies that related to the Department's responsibilities concerning: business and industrial development; economic development promotion, planning and research; cooperation with other entities; and technology-based economic development.

2. Modify the Governor's recommendation to eliminate the transfer of $40,000 GPR annually to the economic development promotion appropriation.

3. Modify the Governor's recommendation to eliminate the transfer of $40,000 annually to the economic development promotion appropriation. Rather, delete $40,000 GPR annually as follows: WDF ($15,000 annually); CBED ($20,000 annually); and economic and community development general operations appropriation ($5,000 annually).

Alternative 3	GPR
1997-99 FUNDING (Change to Bill)	- $80,000

4. Modify the Governor's recommendation to transfer $40,000 GPR in 1997-98 only to the economic development promotion appropriation.

5. Modify the Governor's recommendation to transfer $40,000 GPR in 1997-98 to the economic development promotion appropriation. Delete $40,000 in 1998-99 as follows: WDF ($15,000); CBED ($20,000); and economic and community development general operations ($5,000).

Alternative 5	GPR
1997-99 FUNDING (Change to Bill)	- $40,000

6. Maintain current law.

MO# Alt 4

2 BURKE	Y	N	A
DECKER	Y	N	A
GEORGE	Y	N	A
JAUCH	Y	N	A
WINEKE	Y	N	A
SHIBILSKI	Y	N	A
COWLES	Y	N	A
PANZER	Y	N	A
JENSEN	Y	N	A
OURADA	Y	N	A
HARSDORF	Y	N	A
ALBERS	Y	N	A
GARD	Y	N	A
KAUFERT	Y	N	A
LINTON	Y	N	A
COGGS	Y	N	A

AYE 15 NO 0 ABS 1

Prepared by: Ron Shanovich

To: Joint Committee on Finance

From: Bob Lang, Director
Legislative Fiscal Bureau

ISSUE

Wisconsin Development Fund -- Loan Origination Fee (Commerce)

[LFB Summary: Page 121, #11]

CURRENT LAW

The Bureau of Business Finance has base level funding of $477,800 GPR and $76,500 FED and 7.5 GPR positions.

GOVERNOR

Provide $50,200 PR in 1997-98 and $52,400 PR in 1998-99 and 1.0 PR auditor position beginning in 1997-98 to administer the Department's economic development grant and loan programs and for the costs of underwriting grants and loans. A separate, continuing program revenue appropriation would be created to fund the position and related expenses. A grant or loan origination fee would be established to provide revenue for the new program revenue administration appropriation. The fee would equal up to 1.5% of a grant or loan in excess of $200,000 awarded as a Wisconsin Development Fund (WDF) customized labor and training or major economic development grant or loan.

DISCUSSION POINTS

1. The Bureau of Business Finance is responsible for administering many of the Department's economic development grant and loan programs. The Bureau administers the WDF which consists of six programs: (a) technology development grants and loans; (b) customized labor training grants and loans; (c) small business innovation research (SBIR) bridge financing;

(d) major economic development grants and loans; (e) Wisconsin trade project; and (e) employe ownership assistance loans. The Bureau also administers the Rural Economic Development (RED) early planning grant and micro-loan programs, the Minority Business Development Finance (MBDF) micro-loan program, the manufacturing extension program, the Technology and Pollution Control and Abatement grant and loan program, and the federal small cities Community Development Block Grant (CDBG) Economic Development program.

2. The Office of Loan and Grant Administration provides administrative services to other units within the Department including processing and reviewing certain documents such as CDBG closeouts and audits, providing technical assistance, producing various reports and reconciling encumbrances, receipts and disbursements. The Office has base level funding of $178,100 for 4.0 GPR positions.

3. Commerce indicates that a recent study of bank staffing levels showed that the industry average of staffing for a loan portfolio of $100 to $249 million was 5.2 loan officers, 6.5 lending support staff and 0.5 collection staff, for a total of 12.2 positions. The Bureau of Business Finance has an active portfolio of over $150 million. The comparable number of positions that provide support for the Bureau's programs is 9.1 positions, arguably 25% below the industry average.

4. It is also argued that the time commitment made in monitoring awards is such that the volume of work cannot be judged only by the number of awards. For example, WDF awards increased 28% between the 1991-93 biennium and 1993-95 biennium while the staff time devoted to servicing loans increased 64%. It is noted that bureau loan officers have to continuously monitor projects to ensure that the business is meeting economic development criteria, such as job creation, that are required by law and contained in the contract. Grants have to be monitored for three years after the last disbursement of funds is made; loans (which are typically for seven to 10 years) are monitored until they are repaid.

5. Another argument made in support of the additional position relates to the workload of the Office of Loan and Grant Administration. The Office's staff includes an auditor who is responsible for auditing activities that are related to federal CDBG programs. The workload associated with the federal program prevents the auditor from working on state-funded programs. As a result, loan officers have been conducting closeout and audit reviews of state awards. However, the Department indicates that an increasing workload associated with applications, existing awards and a new preapplication process limits existing staff's ability to perform all administrative responsibilities.

6. In 1996, the Bureau initiated a new preapplication process which allows the Department to screen applicants and provide assistance in developing an award early in the process. Commerce indicates that the preapplication process has resulted in a significant increase in workload. In fiscal year 1994-95, the Bureau received a total of 142 applications for financial

assistance. In fiscal year 1995-96, the number of preapplications and applications increased to 161.

7. Under the bill, the loan or grant origination fee would be imposed on WDF customized labor training (CLT) grants and major economic development (MED) grants and loans. Customized labor training grants are used to fund labor training programs which provide state residents with job training in new technology, industrial skills or manufacturing processes or other employment related skills or techniques in which advances have been made. Recipients must guarantee jobs in Wisconsin to all persons successfully completing the training program. In fiscal year 1995-96, the average CLT award was $236,500.

Major economic development grants and loans are used to fund projects which create or retain jobs and are not eligible for funding under the criteria of any other WDF program. Allowable uses generally include expenditures for land, buildings and equipment, and other business operating costs. The average MED award in fiscal year 1996-97 was $298,100.

8. Generally, commercial lending institutions such as banks charge loan origination fees only on residential mortgages. The market for business loans is such that there usually are no origination or other administrative fees. Some banks will charge a renewal fee for lines of credit and notes, but those fees are typically less than $150.

9. Imposing a loan origination fee on WDF grants and loans would increase the cost to state businesses of applying for state financial assistance. Some would argue that this would act as a disincentive for some businesses with viable economic development projects to apply for state-funded financial assistance. Small businesses in particular could be adversely affected. However, in most cases, state assistance would remain less costly than loans from commercial lending institutions.

10. From one view, funding for administration of state economic development grants and loans is from general fund taxes because it is in the interest of all state residents to promote economic development projects. State taxpayers will ultimately benefit from the jobs and associated increased income that are stimulated by projects funded by the state grants and loans. The bill would create a new funding source for administration of grant and loan programs by charging a fee to award recipients and using the revenue to create a new position. Some would argue that the imposition of the loan origination fee implies that award recipients should fund part of the overall cost of administering state economic development grant and loan programs. From this view, it would be argued that the additional revenue generated by the fee should be used to fund an existing administrative position, instead of funding a new position. Moreover, using the program revenue to offset GPR funding would maintain the Department's services at current levels while reducing GPR expenditures and positions. Consequently, the Committee may wish to modify the Governor's recommendation to delete $48,300 GPR and 1.0 GPR position annually and delete $1,900 PR in 1997-98 and $4,100 PR in 1998-99.

11. It is estimated that the 1.5% loan origination fee will generate $220,000 in a biennium. Since the bill would authorize expenditure authority of $50,200 in 1997-98 and $52,400 in 1998-99, the program revenue generated by the fee would exceed expenditure authority by over $117,400 in the 1997-99 biennium. The additional revenue could be used to fund an existing GPR administrative position in the Bureau. Consequently, the Committee may wish to modify the Governor's request to provide an additional $48,300 PR and 1.0 PR position in each year to administer WDF programs and delete a corresponding amount of GPR.

12. Instead of providing an additional position, the Committee could convert the funding source for two existing GPR positions to program revenue. To accomplish this, the Committee could provide an additional $46,400 PR in 1997-98 and $44,200 PR in 1998-99 and 1.0 PR position beginning in 1997-98. A total of $96,600 GPR and 2.0 GPR positions could be deleted annually.

ALTERNATIVES TO BILL

1. Approve the Governor's recommendation to provide $50,200 PR in 1997-98 and $52,400 PR in 1998-99 and 1.0 PR position beginning in 1997-98 to administer WDF programs. Create a grant or loan origination fee of up to 1.5% of a grant or loan in excess of $200,000 awarded as a WDF customized labor and training or major economic development grant or loan.

2. Modify the Governor's recommendation to delete $48,300 GPR annually and 1.0 GPR position beginning in 1997-98 and delete $1,900 PR in 1997-98 and $4,100 in 1998-99 and 1.0 PR position beginning in 1997-98 to convert the funding source for an existing administrative position in the Bureau of Business Finance from GPR to PR.

Alternative 2	GPR	PR	TOTAL
1997-99 FUNDING (Change to Bill)	- $96,600	- $6,000	- $102,600
1998-99 POSITIONS (Change to Bill)	- 1.00	0.00	- 1.00

3. Approve the Governor's recommendation. In addition, convert $48,300 annually and 1.0 position from GPR to PR. This would provide an additional position and convert the funding source for an existing position from GPR to PR.

Alternative 3	GPR	PR	TOTAL
1997-99 FUNDING (Change to Bill)	- $96,600	$96,600	$0
1998-99 POSITIONS (Change to Bill)	- 1.00	1.00	0.00

4. Adopt the Governor's recommendation. Further, provide $46,400 PR in 1997-98 and $44,200 PR in 1998-99 and 1.0 PR position beginning in 1997-98. Delete $96,600 GPR and 2.0 GPR positions annually to convert the funding source for two existing positions from GPR to PR.

Alternative 4	GPR	PR	TOTAL
1997-99 FUNDING (Change to Bill)	- $193,200	$90,600	- $102,600
1998-99 POSITIONS (Change to Bill)	- 2.00	1.00	- 1.00

5. Maintain current law.

Alternative 5	PR
1997-99 FUNDING (Change to Bill)	- $102,600
1998-99 POSITIONS (Change to Bill)	- 1.00

MO# Alt 3

Prepared by: Ron Shanovich

2
BURKE	Y	N	A
DECKER	Y	N	A
GEORGE	Y	N	A
JAUCH	Y	N	A
WINEKE	Y	N	A
SHIBILSKI	Y	N	A
COWLES	Y	N	A
PANZER	Y	N	A

1
JENSEN	Y	N	A
OURADA	Y	N	A
HARSDORF	Y	N	A
ALBERS	Y	N	A
GARD	Y	N	A
KAUFERT	Y	N	A
LINTON	Y	N	A
COGGS	Y	N	A

AYE 15 NO 0 ABS 1

Senator Burke

COMMERCE

Development Finance Board

Motion:

Move to require the Development Finance Board to include one majority and minority party Senator and Assembly Representative. The legislators would be appointed in the same manner as are members of the standing committees of the respective houses of the Legislature. In addition, require that, at least 10 days before a Wisconsin Development Fund grant or loan is made, Commerce would be required to notify the Senator and Assembly Representative for the district in which the loan or grant recipient is located of the date, time and location that the grant or loan will be presented to the recipient.

Note:

A nine-member Development Finance Board, which is attached to Commerce, awards Wisconsin Development Fund (WDF) grants and loans. The Board consists of the Secretaries of Commerce and the Department of Workforce Development (or designees), the Director of the Wisconsin Technical College System (or designee), and six members appointed by the Governor for two-year terms representing the scientific, technical, labor, small business, minority business and financial communities in the state.

This motion would expand the membership of the Development Finance Board to include four legislators (a total of 13 board members). In addition, the motion would require Commerce to notify the Senator and Representative for the district in which a WDF award was made of the time, date and location that the award would be made.

MO# 1100

1 BURKE	Y	N	A
2 DECKER	Y	N	A
GEORGE	Y	N	A
JAUCH	Y	N	A
WINEKE	Y	N	A
SHIBILSKI	Y	N	A
COWLES	Y	N	A
PANZER	Y	N	A
JENSEN	Y	N	A
OURADA	Y	N	A
HARSDORF	Y	N	A
ALBERS	Y	N	A
GARD	Y	N	A
KAUFERT	Y	N	A
LINTON	Y	N	A
COGGS	Y	N	A

AYE 9 NO 6 ABS 1

Motion #1100

Representative Jensen
Senator Burke

COMMERCE

Wisconsin Development Fund

Motion:

Move to provide $1,890,000 GPR for the Wisconsin Development Fund in 1997-98.

Note:

The Wisconsin Development Fund (WDF) is funded through both a general purpose revenue (GPR) and a program revenue (PR) appropriation. The GPR appropriation is the primary source of funding for the WDF program. Because the GPR appropriation is a biennial appropriation, funds that are not encumbered at the end of the biennium lapse to the general fund. Further, any funds encumbered during one biennium and then later unencumbered (because they are not needed for the purpose for which they were originally encumbered) in a subsequent biennium lapse to the general fund.

Commerce states it expects to lapse $1,890,000 GPR that was encumbered for WDF grants and loans in biennia prior to 1995-97, on June 30, 1997. This motion would increase the WDF, GPR appropriation by that amount in 1997-98. The Department
the $1.9 million to fund a portion of an economic development
Racine estimated at $3 million.

[Change to Bill: $1,890,000 GPR-REV, $1,890,000 GPR]

MO# 1133

2	BURKE	Y	N	A
	DECKER	Y	N	A
	GEORGE	Y	N	A
	JAUCH	Y	N	A
	WINEKE	Y	N	A
	SHIBILSKI	Y	N	A
	COWLES	Y	N	A
	PANZER	Y	N	A
1	JENSEN	Y	N	A
	OURADA	Y	N	A
	HARSDORF	Y	N	A
	ALBERS	Y	N	A
	GARD	Y	N	A
	KAUFERT	Y	N	A
	LINTON	Y	N	A
	COGGS	Y	N	A

AYE 13 NO 2 ABS 1

Motion #1133

To: Joint Committee on Finance

From: Bob Lang, Director
Legislative Fiscal Bureau

ISSUE

Manufacturing Assessment Center (Commerce)

[LFB Summary: Page 125, #14 and Page 136, #29]

CURRENT LAW

The manufacturing assessment center has base level funding of $240,000 GPR and 3.0 GPR positions.

The Wisconsin Development Fund (WDF) consists of six programs: (a) technology development grants and loans; (b) customized labor training grants and loans; (c) small business innovation (SBIR) bridge financing; (d) major economic development grants and loans; (e) Wisconsin trade project; and (f) employe ownership assistance loans.

GOVERNOR

Provide $40,200 PR in 1997-98 and $42,100 PR in 1998-99 and 1.0 PR program assistant position beginning in 1997-98, to provide additional administrative staff for the manufacturing assessment center. The source of funding for the program revenue position would be provided by the sale of assessment tools and would be placed in the Department's gifts and grants program revenue appropriation.

The bill would also create a manufacturing assessment grant program under the WDF. Eligible applicants would be businesses operating for profit, with 500 or fewer employees, including employees of any subsidiary or affiliated organization. The program would provide grants to fund management assessments and plans if all of the following applied: (a) the manufacturing assessment and plan would be likely to assist the business in adopting and implementing readily available and reasonably standardized new manufacturing processes and technologies; (b) the manufacturing assessment and plan would be likely to help make the business more competitive; and (c) the business would commit to adopting and implementing the manufacturing and technological changes that would be recommended as a result of the manufacturing assessment and plan. The maximum grant amount would be $2,500 and the total amount of manufacturing assessment grants that could be awarded would be $750,000 in a fiscal biennium. Recipients of grants would be required to provide matching funds equal to at least 50% of the cost of the management assessment and plan.

DISCUSSION POINTS

1. The manufacturing assessment center (MAC) assists small manufacturing businesses (businesses with 500 or fewer employees) that are located in the state in adopting readily available and reasonably standardized new manufacturing processes and techniques. The center works in partnership with Wisconsin's university and technical college systems in conducting assessment interviews and on site reviews. The assessments help a company define a basic course of action, recommend strategies and improvements and identify resources to assist in the implementation of actions. Assessments include: (a) employee attitude surveys, descriptions of basic job skills and identification of potential training needs; (b) review of the current use of technologies; (c) review of order placement, manufacturing and distribution processes; (d) analysis of marketing activities; and (e) identification of financial needs.

2. The manufacturing assessment center began operations in 1991. Eight assessments were conducted in fiscal year 1991-92 and 56 were conducted in fiscal year 1992-93. Eighty assessments were performed during the 1993-95 biennium. In 1995-96, 93 assessments were conducted; however many of these were conducted by staff from the nonprofit Wisconsin Manufacturing Extension Program (WMEP).

3. The manufacturing assessment center is staffed by two engineers. The MAC currently does not have any clerical staff and, as a result, the engineers perform some clerical functions. This reduces the time in which they are able to conduct assessments, provide consulting services with WMEP and develop assessment tools. The additional position would be provided to respond to requests for information, perform clerical duties and market and sell the assessment tools. Program revenue generated by the sale of assessment tools would be used to fund the position.

4. The manufacturing assessment center GPR appropriation also funds 1.0 GPR program and planning analyst position. The position is vacant and the Governor recommended deleting the position in Senate Bill 77. However, a technical correction would be necessary to conform the agency's position authority with the intent of the bill.

5. The Wisconsin Center for Manufacturing and Productivity, Inc. (WCMP) is a nonprofit, IRC s. 501 (c) 3, Wisconsin corporation formed in August, 1994. The WCMP is a

nonstock company led by a board of directors with members from private businesses, state and local agencies, labor unions and private nonprofit institutions. WCMP was formed for the purpose of providing direct technical assistance and other educational and training opportunities specifically designed for small and medium-sized manufacturers in Wisconsin. WCMP delivers its services under the trade name of Wisconsin Manufacturing Extension Partnership (WMEP).

6. WMEP is an organization that includes the Wisconsin technical college system (WTCS), the University of Wisconsin System and Extension, the Department of Commerce, Marquette University, Milwaukee School of Engineering, the AFL-CIO and private business owners. WMEP works directly with small businesses to address their needs in areas such as production techniques, technology applications and business practices. Solutions are offered through a combination of direct assistance from staff and work with outside consultants. WMEP is part of a nationwide system of manufacturing extension partnerships that receive federal funding from the National Institute of Standards and Technology (NIST).

7. WMEP received a federal grant of $3.05 million for its first year of operations in 1996. The grant is, contractually, a one-year grant. However, the program is designed for six years of federal-state participation and is annually reviewed for renewal. The size of the federal grant decreases and will be eliminated at the end of the six-year period. WMEP expects to be able to fund its operations entirely from charges for services at that time.

8. The federal grant requires matching contributions. WMEP must provide 52% of the cost of the program of which at least 50% must be in cash or cash equivalents. The remaining match can be provided in the form of in-kind contributions. The WTCS Board has awarded $480,000 in incentive grants to technical college districts which use the grants to support WMEP's activities. (Generally, discretionary funds are distributed as grants to technical colleges.) The technical college districts also provide a 25% match equal to $160,000.

9. Commerce provided WMEP a manufacturing extension grant of $1.575 million over a 30-month period which ends in June, 1997. Under the terms of the grant, the funds can only be used to reimburse costs associated with the direct delivery of services and not for administrative overhead costs. As of May 12, 1997, WMEP had drawn $357,700 of the total grant.

The grant was possible as a result of two provisions included in 1993 Wisconsin Act 232. First, Act 232 changed the Wisconsin Development Fund GPR appropriation from a biennial to a continuing appropriation for fiscal year 1994-95 only. As a result, WDF grant and loan amounts that were encumbered in previous biennia but were unused could be unencumbered and reused by the Department for new awards. Under a biennial appropriation, amounts that were encumbered in previous biennia would lapse to the general fund when they were unencumbered. The Department used funds from prior year encumbrances for the $1.575 million grant to WMEP.

Act 232 also created a new type of grant program which was designed to authorize the Department to make awards to organizations like WMEP. Specifically, the Development Finance Board was authorized to make a grant to a consortium, a higher education institution or a technology-based nonprofit organization. An eligible technology-based nonprofit organization is a nonprofit organization that is exempt from federal taxation under the IRC and that has a mission to transfer technology to businesses in the state.

10. In addition to cash, the match to the federal grant can also be in the form of a cash equivalent or in-kind. As noted, 50% of the match must be in the form of cash or cash equivalents. A cash equivalent is a resource provided to the program that is substantially under the control of WCMP. An example would be an individual who is contributed by an institutional partner as an agent on a substantially full-time basis. An in-kind contribution is a resource provided to the program which is not substantially controlled by WCMP. Examples of in-kind contributions include fractional shares of people's time, the provision of facilities or use of equipment.

11. WMEP has a staff of 30 full time and 14 part-time positions including field agents who provide services directly to businesses. The total includes the Commerce MAC engineers. WMEP field agents provide direct assessment services to individual businesses. Typically, the agents develop general recommendations for improving various aspects of the business' operations.

12. The two MAC engineer positions perform assessments, train WMEP assessment staff and develop assessment tools. Commerce indicates that one of the positions performs all of his activities through WMEP. The second engineer performs 50% of his activities through WMEP. The position also supervises six federally-funded positions that perform safety assessments on businesses. Because they are under direction of the Department rather than WMEP, the positions are treated as in-kind matches for federal grant monies.

13. Since 1.5 engineer positions are performing services entirely for WMEP, it could be argued that state GPR funding for the positions is not appropriate. The positions are currently performing services that are generating revenues for WMEP. WMEP has indicated that it intends to hire field audit staff and to use assessment revenues as the primary source for funding its operations. As an alternative, the Committee may delete $112,900 GPR and 1.50 GPR positions annually and provide $112,900 PR and 1.50 PR positions annually to convert the funding source for the engineer positions. Commerce could charge WMEP for the services provided by the positions and place the revenues in the Department's program revenue gifts and grants appropriation. The Department could also fund the positions with revenue from the sale of assessment tools. The clerical position authorized in the bill could also be funded in this manner.

However, funding the engineer positions in this manner would reduce the amount of funds WMEP would have available to match federal grant monies. This could jeopardize future federal funding and prevent the organization from becoming self-sufficient by the end of the six-year federal grant period.

14. As noted, through December, 1997, WMEP has drawn $364,400 of the $1.575 million Commerce grant. Since the grant expires in December, it will have to be renewed by the Department to enable WMEP to continue to draw funds. As another alternative, the Committee could delete 1.5 GPR engineer positions and the recommended PR clerical position and direct Commerce to require WMEP to employ and fund the positions as part of the contract renewal agreement. Again, this would reduce funding available to match federal monies.

15. The WMEP assessment program is intended to work as a partnership between WMEP staff and private consultants. As noted, WMEP field agents perform a general assessment of manufacturing operations and make recommendations for improved operations. Agents are to provide clients with information about private consultants who could help the business implement the recommendations of WMEP staff. However, some private consultants indicate that they are unaware of any referrals made by WMEP staff. These consultants also question the effectiveness of the current assessment tool that is used by WMEP staff. From their view, private sector engineers with 20 to 30 years experience analyzing manufacturing operations with state-of-the-art tools are superior to the services provided by WMEP. Moreover, they would question the flat $3,000 fee charged by WMEP for each assessment. The cost of private sector manufacturing assessments can vary from $1,000 to $20,000 depending on the type and size of business that is involved. From this view, WMEP is being subsidized with public funding to compete against private sector consultants.

Consequently, the Committee may wish to direct Commerce not to renew funding for WMEP when the current term for use of the grant expires in June, 1997. In addition, the Committee could also delete 1.5 engineer positions and the PR clerical position included in SB 77 and related funding. It could be argued that these services could be provided by private consulting firms. However, this could require the Department to dismiss existing personnel.

16. The bill would create a manufacturing assessment grant program under WDF that would provide grants of up to $2,500 to fund manufacturing assessments for businesses with 500 or fewer employees. The program is designed to provide financial assistance to small companies to encourage them to obtain business assessments. It is argued that small businesses have limited budgets, lack in-house expertise and lack access to new technologies. Such firms could use advise on plant layout, modernization, human resource requirements and other information to operate more efficiently and competitively. Small business is where most of the state's economic growth lies. From this view, in the state's interest to promote assessment activities. Nationally, assessment activities have been shown to generate average benefits per firm of 5.6 jobs created or retained, $43,000 savings in labor and materials costs, and an increase of almost $370,000 in sales.

17. The maximum grant amount of $2,500 was designed to provide one-half of the cost of an assessment performed by CWEP staff. In part, the grant program is intended to provide funding for CWEP operations and matching monies for federal funds. However, to the extent the program encourages businesses to request CWEP assistance, the Department would effectively be generating demand for its own services through state-funded grants. Some would argue that general fund tax revenues should not be used to create a market for agency programs. Moreover, if an assessment would improve the efficiency and profitability of a firm, economic factors should cause the business to pay for the assessment services with its own revenues. Finally, the cost of an MAC assessment is currently $3,000 so that the grant would provide state funding equal to 83% of the amount charged by WMEP. However, some would note that the assessment grants can also be used to pay for assessments performed by private sector consultants.

ALTERNATIVES TO BILL

1. Approve the Governor's recommendation, as technically corrected, to provide $40,200 PR in 1997-98 and $42,100 PR in 1998-99 with 1.0 position for the manufacturing assessment center. Create a manufacturing assessment grant program for certain businesses under the WDF. The maximum grant amount would be $2,500 and the total amount of manufacturing assessment grants that could be awarded would be $750,000 in a fiscal biennium. Require matching funds equal to at least 50% of the cost of a project.

2. Modify the Governor's recommendation in one or more of the following ways:

a. Delete $40,200 PR in 1997-98 and $42,100 PR in 1998-99 and 1.0 PR position beginning in 1997-98, to maintain the current staff level for the MAC.

Alternative 2a	PR
1997-99 FUNDING (Change to Bill)	- $82,300
1998-99 POSITIONS (Change to Bill)	- 1.00

b. Direct Commerce to charge WMEP for costs associated with the MAC clerical position.

c. Convert $112,900 and 1.5 engineer positions annually from GPR to PR. Direct Commerce to charge WMEP for the costs associated with the positions and place the revenues in the gifts and grants program revenue appropriation.

Alternative 2c	GPR	PR	TOTAL
1997-99 FUNDING (Change to Bill)	- $225,800	$225,800	$0
1998-99 POSITIONS (Change to Bill)	- 1.50	1.50	0.00

d. Delete $112,900 GPR and 1.5 GPR positions annually. Direct Commerce to require WMEP to hire the engineers beginning July 1, 1997, as a requirement for renewal of the MEC grant with the Department.

Alternative 2d	GPR
1997-99 FUNDING (Change to Bill)	- $225,800
1998-99 POSITIONS (Change to Bill)	- 1.50

e. Delete $112,900 GPR and 1.5 GPR positions annually. Direct Commerce not to renew funding for WMEP when its grant expires in June, 1997.

Alternative 2e	GPR
1997-99 FUNDING (Change to Bill)	- $225,800
1998-99 POSITIONS (Change to Bill)	- 1.50

f. Set the maximum grant at $1,500.

g. Delete the manufacturing assessment grant program.

3. Maintain current law.

Alternative 3	PR
1997-99 FUNDING (Change to Bill)	- $82,300
1998-99 POSITIONS (Change to Bill)	- 1.00

Prepared by: Ron Shanovich

MO# A43

2 BURKE	Y	N	A
1 DECKER	Y	N	A
GEORGE	Y	N	A
JAUCH	Y	N	A
WINEKE	Y	N	A
SHIBILSKI	Y	N	A
COWLES	Y	N	A
PANZER	Y	N	A
JENSEN	Y	N	A
OURADA	Y	N	A
HARSDORF	Y	N	A
ALBERS	Y	N	A
GARD	Y	N	A
KAUFERT	Y	N	A
LINTON	Y	N	A
COGGS	Y	N	A

AYE 8 NO 7 ABS 1